

CITY OF KINGSTON, TENNESSEE

Financial Statements
With Supplementary Information

June 30, 2006

CITY OF KINGSTON, TENNESSEE
Financial Statements
With Supplementary Information
Year Ended June 30, 2006

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Independent Auditors' Report

Honorable Mayor,
City Manager and Members of the City Council
City of Kingston, Tennessee

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We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kingston, Tennessee, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kingston, Tennessee, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 27, 2006, on our consideration of the City of Kingston, Tennessee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 6, and the required supplementary information on pages 24 and 25, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Kingston, Tennessee's basic financial statements. The accompanying financial information listed as supplemental financial information in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the City of Kingston, Tennessee. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

Rodefer Morz & Co, PLLC

Knoxville, Tennessee
October 27, 2006

As management of the City of Kingston, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Kingston for the fiscal year ended June 30, 2006. Readers are encouraged to consider the information presented here in conjunction with the City's financial statements.

Financial Highlights

- At June 30, 2006, the assets of the City of Kingston exceeded its liabilities by \$10,659,563. Of this amount, \$2,368,258 is considered unrestricted funds and may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total debt amount was increased by \$2,057,084 during the current fiscal year.
- At the end of the current fiscal year, the City's enterprise (water and sewer) fund reported an ending fund balance of \$5,965,803. Of this amount, \$315,263 or 5.2% is in restricted funds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction of the City of Kingston's basic financial statements. The City of Kingston's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The Government-wide Financial Statements are designed to provide readers with a broad overview of the City of Kingston's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the Government-wide Financial Statements distinguish functions of the City of Kingston that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, drug enforcement, parks and recreation and waste management services. The business-type activities include Kingston Utilities wastewater and waterworks services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Kingston, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Kingston can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Government funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable

Resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds

The City of Kingston maintains a Water and Sewer fund as an enterprise or proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information of the Water and Sewer activities, which is also considered a major fund of the City.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is similar to that used for proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Kingston's budgetary fund balance, noting variances with actual and final budget amounts.

Government-wide Financial Analysis

The following table provides a summary of the City's net assets at June 30, 2006 and 2005.

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ (Decrease)</u>
Current and other assets	\$ 5,051,715	\$ 3,207,202	\$ 1,844,513	57.51%
Capital assets	<u>16,275,813</u>	<u>14,968,660</u>	<u>1,307,153</u>	8.73%
Total assets	<u>\$ 21,327,528</u>	<u>\$ 18,175,862</u>	<u>\$ 3,151,666</u>	17.34%
Long-term liabilities outstanding	\$ 7,894,906	\$ 5,931,736	\$ 1,963,170	33.10%
Other liabilities	2,773,059	2,042,299	730,760	35.78%
Net assets	<u>10,659,563</u>	<u>10,201,827</u>	<u>457,736</u>	4.49%
Total liabilities and net assets	<u>\$ 21,327,528</u>	<u>\$ 18,175,862</u>	<u>\$ 3,151,666</u>	17.34%

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Kingston, total assets exceeded liabilities by \$10,659,563 at the close of this fiscal year.

The largest portion of the City of Kingston's net assets (74%) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The City of Kingston uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City of Kingston's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Financial Analysis of the City's Funds

As noted earlier, the City of Kingston uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Kingston's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year. As of June 30, 2006, the City of Kingston's general fund reported an ending fund balance of \$1,135,709, an increase in comparison with the prior year. The Special Revenue Funds reported an ending fund balance of \$45,060, a decrease in comparison to the prior year.

The general fund is the chief operating fund of the City of Kingston. At June 30, 2006, unreserved fund balance of the general fund was \$1,135,709. As a measure of the general fund's liquidity, it may be useful to compare both the unreserved fund balance and the total fund balance to total fund expenditures. Unreserved fund balance represents 28.8% of total general fund expenditures. The fund balance increased \$798,787 as a result of the current fiscal year operations.

Proprietary Funds

The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer fund at the end of the year amounted to \$1,232,549. The total increase in net assets for the Water and Sewer fund was \$31,398. The fund had \$4,417,991 in net assets invested in capital assets net of related debt. Factors concerning the financial position of this fund have already been addressed in the discussion of the City's business-type activities.

Capital Assets

The City of Kingston's investment in capital assets for its governmental activities as of June 30, 2006, amounted to \$5,034,501. This investment includes land and land improvements, buildings, machinery, equipment and construction in progress. In the City's proprietary fund, the utility plant in service (net of depreciation) as of June 30, 2006, is \$11,241,312.

Major capital asset events during the current fiscal year included the following:

- Construction of new water lines
- Construction of new sewer lines

Capital assets of the City of Kingston at June 30, 2006 are as follows:

	Governmental activities	Business-type activities	Total
Land	\$ 718,086	\$ 46,361	\$ 764,447
Buildings and improvements	2,506,142		2,506,142
Machinery and equipment	2,666,691	530,158	3,196,849
Water plant and distribution	-	5,572,985	5,572,985
Sewer plant and transmission	-	9,492,902	9,492,902
Other improvements	1,537,534	-	1,537,534
Construction in progress	523,644	1,017,839	1,541,483
 Total capital assets at cost	 7,952,097	 16,660,245	 24,612,342
 Accumulated depreciation	 (2,917,596)	 (5,418,933)	 (8,336,529)
 Capital assets, net	 <u>\$ 5,034,501</u>	 <u>\$ 11,241,312</u>	 <u>\$ 16,275,813</u>

Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the City's budget for the 2006-2007 fiscal year.

- Water and sewer rates were increased by 5%
- Inflationary trends in health care costs and energy fuels have resulted in significant cost increases in next year's budget projections.
- State-shared tax revenue reductions continue to significantly impact the City.

Requests for Information

This financial report is designed to provide a general overview of the City of Kingston's finances. Questions concerning any information provided in this report or requests for any additional financial information should be addressed to the Office of the City Manager, City of Kingston, 125 W. Cumberland St., Kingston, Tennessee 37763.

Statement of Net Assets

June 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 1,053,379	\$ 1,345,702	\$ 2,399,081
Receivables, net	1,846,276	217,644	2,063,920
Inventories	-	18,533	18,533
Unbilled revenue	-	160,000	160,000
Due from other governmental units	15,587	-	15,587
Interfund receivable	19,763	-	19,763
Total current assets	2,935,005	1,741,879	4,676,884
Other Assets			
Restricted cash	-	315,263	315,263
Unamortized bond discount	-	20,985	20,985
Start-up costs	-	128,611	128,611
Less: allowance for amortization	-	(90,028)	(90,028)
Capital assets			
Land	718,086	46,361	764,447
Other capital assets, net	4,316,415	11,194,951	15,511,366
Total other assets	5,034,501	11,616,143	16,650,644
Total assets	\$ 7,969,506	\$ 13,358,022	\$ 21,327,528
Liabilities			
Current Liabilities			
Accounts payable	92,972	438,175	531,147
Current portion of long-term debt	123,858	326,067	449,925
Interfund payable	-	19,763	19,763
Other	21,483	110,960	132,443
Total current liabilities	238,313	894,965	1,133,278
Long-Term Liabilities			
Long-term debt	1,397,652	6,497,254	7,894,906
Accrued employee benefits	258,580	-	258,580
Deferred revenue - taxes	1,381,201	-	1,381,201
Total long-term liabilities	3,037,433	6,497,254	9,534,687
Net Assets			
Investment in capital assets, net of related debt	3,512,991	4,417,991	7,930,982
Restricted for			
special revenue	45,060	315,263	360,323
Unrestricted	1,135,709	1,232,549	2,368,258
Total net assets	\$ 4,693,760	\$ 5,965,803	\$ 10,659,563

See accompanying notes to financial statements.

CITY OF KINGSTON, TENNESSEE
Statement of Activities
Year Ended June 30, 2006

Function/Programs	Program Revenues				Net Revenue (Expense) and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions		Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental activities							
General government	\$ 1,542,232	\$ 27,209	\$ -	\$ (1,515,023)	\$ -	\$ -	(1,515,023)
Public safety	1,028,901	-	-	(1,028,901)	-	-	(1,028,901)
Public welfare	1,111,563	-	-	(1,111,563)	-	-	(1,111,563)
Lakefront project	208,526	179,337	-	(29,189)	-	-	(29,189)
Drug fund	7,999	6,055	-	(1,944)	-	-	(1,944)
Waste management	197,473	212,967	-	15,494	-	-	15,494
Interest on long-term debt	60,223	-	-	(60,223)	-	-	(60,223)
Total governmental activities	4,156,917	425,568	-	(3,731,349)	-	-	(3,731,349)
Business-type activities							
Water and Sewer Fund	2,319,516	2,350,914	-	-	31,398	31,398	31,398
Total business-type activities	2,319,516	2,350,914	-	-	31,398	31,398	31,398
Total primary government	\$ 6,476,433	\$ 2,776,482	\$ -	(3,731,349)	31,398	31,398	(3,699,951)
General Revenues							
Local taxes				2,706,731	-	-	2,706,731
Intergovernmental revenues				666,104	-	-	666,104
Licenses and permits				204,709	-	-	204,709
Fines and fees				67,480	-	-	67,480
Investment earnings				44,962	-	-	44,962
Rents				36,822	-	-	36,822
Other revenues				430,879	-	-	430,879
Total general revenues				4,157,687	-	-	4,157,687
Change in net assets				426,338	31,398	31,398	457,736
Net assets, beginning				4,267,422	5,934,405	5,934,405	10,201,827
Net assets, ending				\$ 4,693,760	\$ 5,965,803	\$ 5,965,803	\$ 10,659,563

See accompanying notes to financial statements.

Governmental Funds

Balance Sheet

June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 1,022,005	\$ 31,374	\$ 1,053,379
Taxes receivables, net	1,817,716	28,560	1,846,276
Due from other funds	19,763	-	19,763
Due from other governmental units	15,587	-	15,587
Total assets	\$ 2,875,071	\$ 59,934	\$ 2,935,005
Liabilities and Fund Balance			
Liabilities			
Accounts payable	92,972	-	92,972
Accrued employee benefits	20,000	-	20,000
Accrued interest	21,371	-	21,371
Retainage payable	22,839	-	22,839
Other current liabilities	19,342	-	19,342
Deferred revenue	1,562,838	14,874	1,577,712
Total liabilities	1,739,362	14,874	1,754,236
Fund balances			
Unrestricted	1,135,709	-	1,135,709
Restricted, reported in nonmajor Special revenue funds	-	45,060	45,060
Total fund balances	1,135,709	45,060	1,180,769
Total liabilities and fund balances	\$ 2,875,071	\$ 59,934	

Amounts reported for governmental activities in the statement of net assets
are different because

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the funds.

5,034,501

Some liabilities are not due and payable in the current period
and therefore are not reported in the funds.

(1,521,510)

Net assets of governmental activities

\$ 4,693,760

Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
Year Ended June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Local taxes	\$ 2,570,671	\$ -	\$ 2,570,671
Intergovernmental	620,527	-	620,527
Public welfare	27,209	-	27,209
Licenses and permits	204,709	-	204,709
Rents	36,822	-	36,822
Fines and forfeitures	67,480	-	67,480
Lakefront project	-	164,462	164,462
Drug fund	-	6,055	6,055
Waste management	-	212,967	212,967
Other revenues	372,945	-	372,945
Investment earnings	44,433	529	44,962
Total revenues	<u>3,944,796</u>	<u>384,013</u>	<u>4,328,809</u>
Expenditures			
Current			
General government	1,344,747	190,001	1,534,748
Public safety	940,807	-	940,807
Public welfare	1,025,876	197,473	1,223,349
Capital improvements	507,949	-	507,949
Debt service			
Principal	68,401	-	68,401
Interest	60,223	-	60,223
Total expenditures	<u>3,948,003</u>	<u>387,474</u>	<u>4,335,477</u>
Deficiency of revenues under expenditures	<u>(3,207)</u>	<u>(3,461)</u>	<u>(6,668)</u>
Other financing sources (uses)			
Bond proceeds	786,500	-	786,500
Transfer in (out)	15,494	(15,494)	-
Total other financing sources (uses)	<u>801,994</u>	<u>(15,494)</u>	<u>786,500</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	798,787	(18,955)	779,832
Fund Balance, beginning	<u>336,922</u>	<u>64,015</u>	<u>400,937</u>
Fund Balance, ending	<u>\$ 1,135,709</u>	<u>\$ 45,060</u>	<u>\$ 1,180,769</u>

See accompanying notes to financial statements.

CITY OF KINGSTON, TENNESSEE
Governmental Funds
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balance to the Statement of Activities
Year Ended June 30, 2006

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Net change in fund balances - total governmental funds	\$ 779,832
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation \$378,911 was exceeded by capital outlay \$680,479 in the current period.	301,565
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	42,110
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Note proceeds provide current financial resources to governmental funds, but the issuance of debt increases long-term obligations for governmental activities.

Bond proceeds	(786,500)
Adjustment for compensated absences	21,290

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of principal repayments	<u>68,041</u>
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Change in net assets of governmental activities	<u>\$ 426,338</u>
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CITY OF KINGSTON, TENNESSEE
Proprietary Fund - Water and Sewer
Statement of Net Assets
June 30, 2006

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Assets

Current Assets

Cash and cash equivalents	\$ 1,345,702
Accounts receivable	377,644
Inventories	<u>18,533</u>

Total current assets	<u>1,741,879</u>
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Other Assets

Restricted cash	315,263
Unamortized bond discount	20,985
Start up costs, net of accumulated amortization	38,583
Capital assets	
Utility plant, net	<u>11,241,312</u>

Total other assets	<u>11,616,143</u>
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Total assets	<u><u>\$ 13,358,022</u></u>
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Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 438,175
Current portion of long- term debt	326,067
Retainage payable	96,232
Withholdings payable	325
Sales tax payable	10,221
Accrued interest payable	4,182
Due to general fund	<u>19,763</u>

Total current liabilities	<u>894,965</u>
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Long-Term Liabilities

Bonds payable	<u>6,497,254</u>
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Total long-term liabilities	<u>6,497,254</u>
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Net Assets

Invested in capital assets, net of related debt	4,417,991
Restricted	315,263
Unrestricted	<u>1,232,549</u>

Total net assets	<u>5,965,803</u>
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Total liabilities and net assets	<u><u>\$ 13,358,022</u></u>
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See accompanying notes to financial statements.

CITY OF KINGSTON, TENNESSEE
Proprietary Funds - Water and Sewer Fund
Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2006

13

Operating Revenue	
Sales	\$ 2,345,782
Other operating revenue	<u>5,132</u>
Total operating revenues	<u>2,350,914</u>
Operating Expenses	
Auditing and accounting	8,000
Legal and professional	1,695
Council members fee	2,400
Subscriptions and dues	13,940
Salaries	527,855
Payroll taxes	40,922
Retirement	35,012
Utilities	149,079
Telephones and pagers	19,872
Education and Training	1,827
Chemicals and lab	130,889
Garbage disposal-landfill	30,118
Auto expense	23,600
Equipment maintenance	169,476
Stone	18,916
Infiltration inflow	67,174
Repairs	50,593
Ground maintenance	23,467
Building maintenance	2,683
Hospital and health insurance	141,624
Safety supplies	2,053
Insurance	84,798
Travel	3,535
Operating supplies	67,584
Contract operations	130,000
Uniforms and safety boots	7,831
Depreciation and amortization	385,923
Other operating	<u>3,605</u>
Total operating expenses	<u>2,144,471</u>
Operating income	<u>206,443</u>
Nonoperating Revenues (Expenses)	
Interest income	37,611
Interest expense	<u>(212,656)</u>
Total nonoperating revenue (expenses)	<u>(175,045)</u>
Change in net assets	31,398
Net assets, July 1, 2005	<u>5,934,405</u>
Net assets, June 30, 2006	<u><u>\$ 5,965,803</u></u>

See accompanying notes to financial statements.

CITY OF KINGSTON, TENNESSEE
Proprietary Funds - Water and Sewer Fund
Statement of Cash Flows
Year Ended June 30, 2006

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Cash Flows From Operating Activities	
Cash received from customers	\$ 2,308,048
Cash paid to suppliers and employees	<u>(1,216,120)</u>
Net cash flows from operating activities	<u>1,091,928</u>
 Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(1,029,571)
Principal paid on long-term debt	(312,302)
Proceeds from long-term debt	1,112,900
Interest expense	<u>(221,774)</u>
Net cash flows from capital and related financing activities	<u>(450,747)</u>
 Cash Flows From Investing Activities	
Interest earned	<u>37,611</u>
Net cash flows from investing activities	<u>37,611</u>
Net increase in cash and cash equivalents	678,792
Cash and restricted cash equivalents at the beginning of year	982,173
Less: Restricted cash	<u>(315,263)</u>
 Cash and cash equivalents at end of year	<u>\$ 1,345,702</u>
 Cash Flows From Operating Activities	
Operating income	\$ 206,443
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	366,830
Amortization	19,094
Changes in operating assets and liabilities	
(Increase) decrease in:	
Accounts receivable	(42,867)
Inventories	21,853
Increase (decrease) in:	
Accounts payable	421,933
Retainage payable	95,232
Withholdings payable	(145)
Sales tax payable	413
Due to general fund	<u>3,142</u>
Net cash flows from operating activities	<u>\$ 1,091,928</u>

See accompanying notes to financial statements.

CITY OF KINGSTON, TENNESSEE
Notes to Financial Statements
June 30, 2006

NOTE 1 - REPORTING ENTITY

The City of Kingston, Tennessee was incorporated in 1903 under the provisions of the State of Tennessee and operates under a Council-Manager form of government. It has the usual corporate powers of municipalities, including taxation, entering into contracts, and issuing bonds. The following services are authorized by Charter: Public Safety (Police and Fire), Streets, Sanitation, Health and Social Services, Culture-Recreation, Public Improvements, Planning and Zoning, Water and Sewer and General Administrative duties.

The City, for financial purposes, includes all of the funds relevant to the operations of the City of Kingston, Tennessee. The financial statements presented herein do not include agencies which have been formed under applicable state laws as separate and distinct units of government apart from the City of Kingston, Tennessee.

The financial statements of the City include the General Fund, the Lakefront Project Fund, the Drug Fund, the Waste Management Fund, the Water and Waste Water Department, and the General Account Group.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Kingston, Tennessee, (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below:

Basic Financial Statements - Government-Wide Statements - The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's public safety, streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning and general administrative services are classified as governmental activities. The City's water and sewer services are classified as business-type activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The government-wide Statement of Activities reports both the gross and net costs of each of the City's functions (public safety, streets, etc.) and business-type activities. The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits, and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues and operating grants. Program revenues must be directly associated with the function (public safety, streets, etc.) or a business-type activity. Operating grants include operating-specific and discretionary grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales and use taxes, intergovernmental revenues, interest income, etc).

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic Financial Statements - Fund Financial Statements - The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the City:

Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

General Fund - The General Fund is the general operating fund of the City. All financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund.

Special Revenue Funds - Special Revenue Funds are used to account for all proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The accounting principles generally accepted in the United States of America that are applicable are those similar to businesses in the private sector. The following is a description of the proprietary fund of the City:

Enterprise Fund - Kingston Utilities is an enterprise fund that falls under the proprietary fund type. Proprietary fund types are used to account for activities conducted on a fee-for-service basis in a manner similar to commercial enterprises providing services to the public. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 20 gives governments the option of applying all Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, to its proprietary funds, unless they conflict with or contradict GASB pronouncements. The City has elected not to implement FASB statements and interpretations issued thereafter, unless they are adopted by GASB.

BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Accrual - Both governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual - The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets and Budgetary Accounting - The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- (1) Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds. These budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
- (2) The combined statement of revenues and expenditures - budget and actual for the General and Special Revenue Funds present comparisons of legally adopted budgets with actual data on a budgetary basis.
- (3) The City Council approves the budget at the beginning of each year. The City Manager is then authorized by resolution to pay, without further Council action, bills and charges as specified in the budget.
- (4) Unused appropriations for annually budgeted funds lapse at the end of the year.

Compensated Absences - The cost of vacation pay and sick leave benefits is recognized as earned by employees. In the event of termination or retirement, an employee is reimbursed for accumulated vacation days on a regular pay-period basis. In no event will an employee who has not completed at least six months of service receive vacation pay upon separation. Employees can accumulate sick leave, and upon retirement, employees are reimbursed for 50% of their accumulated sick leave benefits not to exceed nine hundred sixty (960) work hours.

Revenue Recognition

- (1) Property taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent March 1 of the following year. Property taxes attach as an enforceable lien on property after one year of delinquency.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end. Allowances for uncollectible taxes within the General Fund are based upon historical experience in collecting taxes.

The assessed value at January 1, 2005, upon which the 2005 levy was based, was \$106,242,267 not including public utilities. The tax rate was \$1.30 per \$100. Current tax collections for the year ended June 30, 2006 were 94.1% of the tax levy.

Sales taxes, which are collected by the State and subsequently remitted to the town, are recognized as revenues and receivables upon collection by the State, which is generally in the month proceeding receipt by the Town. Licenses, permits, fines and rents are recorded as revenues when received.

- (2) Kingston Utilities records revenue as billed to its customers based on a monthly meter reading cycle. Fees charged by Kingston Utilities to join an existing line or extension of an existing line are recorded as operating income. The related costs are expensed.

Inventories - Enterprise fund materials and supplies inventories are recorded at average cost.

Allowance for Uncollectible Accounts - At June 30, 2006, the allowance for uncollectible taxes in the General Fund was \$20,000 and the allowance for uncollectible accounts receivable in the enterprise fund was \$25,000.

Cash Equivalents - Certificates of deposit with original maturities of three months or less are considered to be cash equivalents.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3 – DEPOSITS

At June 30, 2006, the bank balance of cash held with local financial institution (checking and saving) was \$2,730,281 and the carrying balance was \$2,714,332. The bank balance was covered by federal depository insurance or by collateral held by the City's agent in the City's name, which is the lowest category of credit risk.

A summary of the carrying amount of these deposits at June 30, 2006 is as follows:

	Carrying Amount	Balance Per Bank
Deposits		
Governmental activities		
Cash on hand	\$ 500	\$ -
Cash in checking and savings	<u>1,052,879</u>	<u>1,058,889</u>
	<u>1,053,379</u>	<u>1,058,889</u>
Business-type activities		
Cash on hand	200	-
Cash in checking and savings	<u>1,660,765</u>	<u>1,671,392</u>
	<u>1,660,965</u>	<u>1,671,392</u>
 Total cash and savings accounts	 <u>\$ 2,714,344</u>	 <u>\$ 2,730,281</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

NOTE 4 - CAPITAL ASSETS (Continued)

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

Net amounts due from and to other funds at June 30, 2006 are summarized as follows:

	Due from	Due to
Water and sewer fund	\$ 19,763	\$ -
General fund	<u>-</u>	<u>19,763</u>
	<u>\$ 19,763</u>	<u>\$ 19,763</u>

NOTE 6 - PENSION PLAN FUNDS-TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

Plan Description

Employees of the City of Kingston are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for

NOTE 6 - PENSION PLAN FUNDS-TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (Continued)

disability that is the result of an accident or injury occurring when the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the City of Kingston participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us. Copies of footnotes in PDF format can be accessed at <http://www.treasury.state.tn.us/tcrs/PS/>.

Funding Policy

City of Kingston requires employees to contribute 5.0 percent of earnable compensation.

City of Kingston is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2006 was 7.39% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for City of Kingston is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2006, City of Kingston's annual pension cost of \$139,593 to TCRS was equal to City of Kingston's required and actual contributions. The required contribution was determined as part of the initial actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. City of Kingston's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The actuarial valuation was performed as of July 1, 2005, which established contribution rates effective July 1, 2006.

Trend Information

Fiscal Year Ending June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2006	\$ 139,593	100%	\$ -
2005	67,079	100%	-
2004	-	100%	-

NOTE 7 - LONG-TERM DEBT

Long-term debt consisted of the following at June 30, 2006:

\$1,000,000 loan from the Tennessee Municipal Bond Fund Variable Rate Pooled Loan Program payments are annually and vary, interest rate is 2.88% at 6/30/06	\$ 960,000
Municipal Asset Management, capital lease for the purchase of a fire truck, payments due annually of \$54,688 includes principal and interest, interest rate at 4.11% at 6/30/06	433,375
Old Capital Leasing, purchase of fire truck payments due annually of \$27,296 includes principal and interest, interest rate of 4.23% at 6/30/06	51,226
Ford Motor Credit, capital lease for the purchase of 3 police vehicles, payments due monthly of \$1,863 includes principal and interest, interest rate of 5.60% at 6/30/06	56,849
Ford Motor Credit, capital lease for the purchase of a police vehicle, payments due monthly of \$657 includes principal and interest, interest rate at 5.60% at 6/30/06	<u>20,060</u>
Total debt	1,521,510
Long-term portion of provision for compensated absences	<u>258,580</u>
	1,780,090
Less amounts due within one year	<u>(123,858)</u>
Total long-term debt	<u>\$ 1,656,232</u>

NOTE 7 - LONG-TERM DEBT (Continued)

Maturities on long-term debt are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 123,858	\$ 60,189	\$ 184,047
2008	132,098	47,312	179,410
2009	105,755	41,816	147,571
2010	86,226	38,398	124,624
2011	88,925	35,404	124,329
2012	92,693	32,255	124,948
2013	95,534	28,974	124,508
2014	99,451	25,588	125,039
2015	102,446	22,062	124,508
2016	105,524	18,424	123,948
2017	55,000	14,670	69,670
2018	57,000	13,020	70,020
2019	58,000	11,310	69,310
2020	60,000	9,570	69,570
2021	62,000	7,770	69,770
2022	64,000	5,910	69,910
2023	66,000	3,990	69,990
2024	67,000	2,010	69,010
Total	<u>\$ 1,521,510</u>	<u>\$ 418,672</u>	<u>\$ 1,940,182</u>

NOTE - 8 -PROPRIETARY FUND - KINGSTON UTILITIES-LONG-TERM DEBT

Long-term debt consisted of the following at June 30, 2006:

Tennessee Municipal Bond Fund Series 1999 Waterworks Revenue Revenue Bond at a variable rate of interest, due in varying amounts through May, 2025	\$ 5,693,000
Tennessee Municipal Bond Fund Series 1991 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through May, 2011	617,321
GMAC Commercial Mortgage Corp. Series 1979 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through January, 2020	440,000
GMAC Commercial Mortgage Corp. Series 1975 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through January, 2015	<u>73,000</u>
	6,823,321
Less amounts due in one year	<u>(326,067)</u>
	<u>\$ 6,497,254</u>

NOTE 9 – RISK MANAGEMENT

The City is exposed to various risks of loss relates to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's risks of loss are covered by its commercial package insurance policies. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three years.

NOTE 10- CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the City to concentrations of credit risk consist primarily of customer accounts and taxes receivable. Management does not believe significant credit risk exists at June 30, 2006.

REQUIRED SUPPLEMENTARY INFORMATION

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2006

	Budget			Variance
	Original	Final	Actual	Favorable/ (Unfavorable)
Revenues				
Local taxes	\$ 2,327,873	\$ 2,581,028	\$ 2,570,671	\$ (10,357)
Bond proceeds	-	-	786,500	786,500
Licenses and permits	217,200	217,200	204,709	(12,491)
Intergovernmental revenues	629,500	622,884	625,742	2,858
Fines, fees and costs	39,000	46,500	67,480	20,980
Charges for service	31,900	31,900	64,031	32,131
Investment earnings	5,000	5,000	44,433	39,433
Other revenues	586,987	351,000	367,730	16,730
Total revenues	3,837,460	3,855,512	4,731,296	875,784
Expenditures				
Current				
General government	1,560,313	1,513,711	1,344,747	168,964
Public safety	952,931	1,012,955	940,807	72,148
Public welfare	1,138,991	1,160,621	1,025,876	134,745
Capital improvements	94,500	77,500	507,949	(430,449)
Debt service				
Principal	64,025	51,725	68,401	(16,676)
Interest	26,700	39,000	60,223	(21,223)
Total expenditures	3,837,460	3,855,512	3,948,003	(92,491)
Excess of revenues over expenditures	-	-	783,293	783,293
Other financing sources (uses)				
Transfers from other funds	-	-	15,494	15,494
Excess of revenues and other financing sources over expenditures and other financing uses	-	-	798,787	798,787
Fund balance, July 1, 2005	336,922	336,922	336,922	-
Fund balance, June 30, 2006	\$ 336,922	\$ 336,922	\$ 1,135,709	\$ 798,787

See accompanying independent auditors' report.

CITY OF KINGSTON, TENNESSEE
Schedule of Retirement Plan Funding Progress
Year Ended June 30, 2006

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(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b) - (a)	(a/b)	(c)	((b-a)/c)
July 1, 2005	\$ 285	\$ 448	\$ 163	63.62%	\$ 2,328	7.00%
July 1, 2003	\$ -	\$ -	\$ -	0.00%	\$ -	0.00%
July 1, 2001	\$ -	\$ -	\$ -	0.00%	\$ -	0.00%

See accompanying independent auditors' report.

SUPPLEMENTARY INFORMATION

Special Revenue Funds
Combining Balance Sheets
June 30, 2006

	Lakefront Project Fund	Drug Fund	Waste Management Fund	Total
Assets				
Cash in bank	\$ 29,193	\$ 2,181	\$ -	\$ 31,374
Taxes receivable	<u>28,560</u>	<u>-</u>	<u>-</u>	<u>28,560</u>
 Total assets	 <u><u>\$ 57,753</u></u>	 <u><u>\$ 2,181</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 59,934</u></u>
 Liabilities				
Deferred income	\$ 14,874	\$ -	\$ -	\$ 14,874
 Total liabilities	 14,874	 -	 -	 14,874
 Fund balance	 <u>42,879</u>	 <u>2,181</u>	 <u>-</u>	 <u>45,060</u>
 Total liabilities and fund balance	 <u><u>\$ 57,753</u></u>	 <u><u>\$ 2,181</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 59,934</u></u>

See accompanying independent auditors' report.

Special Revenue Funds
 Combined Statements of Revenues, Expenditures and Changes in Fund Balance
 Year Ended June 30, 2006

	Lakefront Project Fund	Drug Fund	Waste Management Fund	Total
Revenues				
Local tax	\$ 164,462	\$ -	\$ -	\$ 164,462
Interest	529	-	-	529
Drug related fines	-	6,055	-	6,055
Garbage tip fees	-	-	212,967	212,967
	<u>-</u>	<u>-</u>	<u>212,967</u>	<u>212,967</u>
Total revenues	<u>164,991</u>	<u>6,055</u>	<u>212,967</u>	<u>384,013</u>
Expenditures				
Contract operations	172,500	-	-	172,500
Contracted services (collection)	-	-	197,473	197,473
Professional services	4,509	-	-	4,509
Auditing	1,500	1,500	-	3,000
Repairs and maintenance	3,493	-	-	3,493
Education	-	635	-	635
Telephones and pagers	-	2,884	-	2,884
Other contractual services	-	886	-	886
Operating supplies	-	1,224	-	1,224
Safety supplies	-	110	-	110
Confidential drug buys	-	760	-	760
Uniforms and safety boots	-	-	-	-
Machinery and equipment	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>182,002</u>	<u>7,999</u>	<u>197,473</u>	<u>387,474</u>
Excess (deficiency) of revenues over (under) expenditures	(17,011)	(1,944)	15,494	(3,461)
Other financing sources (uses)				
Transfer out	-	-	(15,494)	(15,494)
	<u>-</u>	<u>-</u>	<u>(15,494)</u>	<u>(15,494)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(17,011)	(1,944)	-	(18,955)
Fund balance, July 1, 2005	<u>59,890</u>	<u>4,125</u>	<u>-</u>	<u>64,015</u>
Fund balance, June 30, 2006	<u>\$ 42,879</u>	<u>\$ 2,181</u>	<u>\$ -</u>	<u>\$ 45,060</u>

See accompanying independent auditors' report.

Lakefront Project Fund

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006

	Budget			Variance Favorable/ (Unfavorable)
Revenues	Original	Final	Actual	
Local tax	\$ 168,000	\$ 168,000	\$ 164,462	\$ (3,538)
Fund balance and other revenues	15,000	15,000	-	(15,000)
Interest	-	-	529	529
Total revenues	<u>183,000</u>	<u>183,000</u>	<u>164,991</u>	<u>(18,009)</u>
Expenditures				
Contract operations	172,500	172,500	172,500	-
Professional services	5,000	5,000	4,509	491
Auditing	1,500	1,500	1,500	-
Repairs and maintenance	<u>4,000</u>	<u>4,000</u>	<u>3,493</u>	<u>507</u>
Total expenditures	<u>183,000</u>	<u>183,000</u>	<u>182,002</u>	<u>998</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	(17,011)	(17,011)
Fund balance, July 1, 2005	<u>59,890</u>	<u>59,890</u>	<u>59,890</u>	<u>-</u>
Fund balance, June 1, 2006	<u>\$ 59,890</u>	<u>\$ 59,890</u>	<u>\$ 42,879</u>	<u>\$ (17,011)</u>

See accompanying independent auditors' report.

Drug Fund

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006

Revenues	Budget		Actual	Variance
	Original	Final		Favorable/ (Unfavorable)
Drug Related Fines	\$ 19,800	\$ 19,800	\$ 6,055	\$ (13,745)
Interest	200	200	-	(200)
Total Revenues	20,000	20,000	6,055	(13,945)
Expenditures				
Education	1,000	1,000	635	365
Telephones and Pagers	4,000	4,000	2,884	1,116
Auditing	1,500	1,500	1,500	-
Other Contractual Services	1,500	1,500	886	614
Operating Supplies	2,000	2,000	1,224	776
Uniforms and Safety Boots	1,000	1,000	-	1,000
Safety Supplies	1,000	1,000	110	890
Confidential Drug Buys	3,000	3,000	760	2,240
Machinery and Equipment	5,000	5,000	-	5,000
Total Expenditures	20,000	20,000	7,999	12,001
Excess (deficiency) of revenues over (under) expenditures	-	-	(1,944)	(1,944)
Fund balance, July 1, 2005	4,125	4,125	4,125	-
Fund balance, June 30, 2006	\$ 4,125	\$ 4,125	\$ 2,181	\$ (1,944)

See accompanying independent auditors' report.

Waste Management Fund

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006

	Budget		Actual	Variance
	Original	Final		Favorable/ (Unfavorable)
Revenues				
Garbage tip fees	\$ 198,737	\$ 198,737	\$ 212,967	\$ 14,230
Total revenues	198,737	198,737	212,967	14,230
Expenditures				
Contracted services (collection)	198,737	198,737	197,473	1,264
Total expenditures	198,737	198,737	197,473	1,264
Excess of revenues over expenditures	-	-	15,494	15,494
Other financing sources (uses)				
Transfers to other funds	-	-	(15,494)	(15,494)
Excess of revenues and other financing sources (over) under expenditures and other financing uses	-	-	-	-
Fund balance, July 1, 2005	-	-	-	-
Fund balance, June 30, 2006	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditors' report.

CITY OF KINGSTON, TENNESSEE
Schedule of Changes in Taxes Receivable
Year Ended June 30, 2006

For the Tax Year Ended June 30,	Balance July 1, 2005	Additions	Collections	Balance June 30, 2006
2006	\$ -	\$ 1,414,784	\$ 1,331,413	\$ 83,371
2005	62,215	-	48,071	14,144
2004	23,421	-	10,039	13,382
2003	30,516	-	7,193	23,323
2002	10,228	-	4,677	5,551
2001	7,770	-	2,777	4,993
2000	4,808	-	1,977	2,831
1999	3,900	-	835	3,065
1998	2,269	-	498	1,771
1997	<u>1,872</u>	<u>-</u>	<u>393</u>	<u>1,479</u>
Total Property Taxes Receivable	<u>\$ 146,999</u>	<u>\$ 1,414,784</u>	<u>\$ 1,407,873</u>	<u>\$ 153,910</u>

CITY OF KINGSTON, TENNESSEE
Water and Sewer Fund
Schedule of Utility Rates and Number of Customers Served
June 30, 2006

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WATER RATES

<u>Quantity</u>	<u>Rates</u>		
	<u>Inside City Limits</u>	<u>Outside City Limits</u>	
First 1,000 gallons	\$ 6.79	\$ 10.16	Minimum bill
Over 1,000 gallons	4.70	7.73	Per each additional 1,000 gallons

SEWER RATES

<u>Quantity</u>	<u>Rates</u>		
	<u>Inside City Limits</u>	<u>Outside City Limits</u>	
First 1,000 gallons	\$ 6.79	\$ 12.71	Minimum bill
Over 1,000 gallons	6.35	9.69	Per each additional 1,000 gallons

GARBAGE SERVICE FEES

Residential		
Single Family Residence	\$ 7.00	per month
Multiple Family Units	-	per month /per unit
Business and Commercial		
Small Enterprise	\$ 12.00	per month
Medium Enterprise	18.00	per month
Food Service	36.00	per month
Motel	72.00	per month
Industrial	72.00	per month

The number of customers services by utility as of June 30, 2006, is as follows:

Water system	3,632
Sewer system	2,260
Sanitation services	2,291

See accompanying independent auditors' report.

CITY OF KINGSTON, TENNESSEE
Water and Sewer Fund
Schedule of Long- term Debt Requirements
June 30, 2006

Year Ended June 30,	1975 BOND ISSUE REQUIREMENTS		1979 BOND ISSUE REQUIREMENTS		1991 BOND ISSUE REQUIREMENTS		1999 BOND ISSUE REQUIREMENTS		TOTAL PRINCIPAL	TOTAL INTEREST	TOTAL DEBT SERVICE REQUIREMENT
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest			
2007	\$ 7,000	\$ 3,504	\$ 20,000	\$ 22,000	\$ 113,067	\$ 16,201	\$ 186,000	\$ 283,974	\$ 326,067	\$ 325,679	\$ 651,746
2008	7,000	3,154	25,000	21,000	118,042	13,176	196,000	274,533	346,042	311,863	657,905
2009	7,000	2,804	25,000	19,750	123,236	10,019	205,000	264,696	360,236	297,269	657,505
2010	8,000	2,433	25,000	18,500	128,658	6,723	216,000	254,400	377,638	282,056	659,714
2011	8,000	2,033	25,000	17,250	134,318	3,281	227,000	243,554	394,318	266,118	660,436
2012	8,000	1,633	30,000	16,000	-	-	238,000	232,136	276,000	249,769	525,769
2013	9,000	1,213	30,000	14,500	-	-	250,000	220,208	289,000	235,921	524,921
2014	9,000	763	30,000	13,000	-	-	262,000	207,658	301,000	221,421	522,421
2015	10,000	292	35,000	11,500	-	-	275,000	194,504	320,000	206,296	526,296
2016	-	-	35,000	9,750	-	-	289,000	180,696	324,000	190,446	514,446
2017	-	-	35,000	8,000	-	-	304,000	166,183	339,000	174,183	513,183
2018	-	-	40,000	6,250	-	-	319,000	150,921	359,000	157,171	516,171
2019	-	-	40,000	4,500	-	-	335,000	134,904	375,000	139,404	514,404
2020	-	-	45,000	2,250	-	-	351,000	118,087	396,000	120,337	516,337
2021	-	-	-	-	-	-	369,000	100,462	369,000	100,462	469,462
2022	-	-	-	-	-	-	388,000	81,933	388,000	81,933	469,933
2023	-	-	-	-	-	-	407,000	62,454	407,000	62,454	469,454
2024	-	-	-	-	-	-	427,000	42,021	427,000	42,021	469,021
2025	-	-	-	-	-	-	449,000	20,579	449,000	20,579	469,579
	<u>\$ 73,000</u>	<u>\$ 17,829</u>	<u>\$ 440,000</u>	<u>\$ 184,250</u>	<u>\$ 617,321</u>	<u>\$ 49,400</u>	<u>\$ 5,693,000</u>	<u>\$ 3,233,903</u>	<u>\$ 6,823,321</u>	<u>\$ 3,485,382</u>	<u>\$ 10,308,703</u>

See accompanying independent auditors' report.

CITY OF KINGSTON, TENNESSEE
Schedule of Insurance in Force
June 30, 2006

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	Coverage Amount
Buildings and contents - fire and extended coverage including vandalism and malicious mischief (actual cash value less \$1,000 each occurrence)	\$ 14,491,018
Automotive Coverage:	
Liability coverage for bodily injury - each occurrence	250,000
Liability coverage for bodily injury - maximum	600,000
Liability coverage for property damage - each occurrence	85,000
Liability coverage for property damage - maximum	600,000
Uninsured motorists for bodily injury	250,000
Uninsured motorists for property damage	85,000
Medical payments - maximum	100,000
Collision (actual cash value less deductible)	
Comprehensive coverage (cost less deductible)	
City Employees and Elected Officials	
Breach of Duty Insurance (errors and omissions)	600,000
Aggregate	300,000
Products aggregate	300,000
Excess: each occurrence	900,000
Aggregate	2,700,000
Products aggregate	2,700,000
Blanket Crime Policy: (1) Employee Dishonesty, (2) Loss of Money Orders and Securities (inside premises), (3) Loss of Money Orders and Securities (outside premises), (4) Money Orders and Counterfeit Paper, and (5) Depositor's Forgery Coverage	100,000
Workman's Compensation Liability	Statutory Limits
Business Auto Policy: Personal Injury, Auto Medical Payments, Uninsured Motorists, Comprehensive Coverage, Collision Insurance	
Liability:	
Liability:	1,000,000
Uninsured Motorists	1,000,000

See accompanying independent auditors' report.



- ▶ CERTIFIED PUBLIC ACCOUNTANTS
- ▶ BUSINESS ADVISORS
- ▶ TECHNOLOGY CONSULTANTS

Report on Internal Control and on Compliance Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

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Honorable Mayor,
Members of City Council and City Manager
City of Kingston, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the general fund, and the aggregate remaining fund information of the City of Kingston, Tennessee, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Kingston, Tennessee's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted no matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Kingston, Tennessee's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kingston, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we

do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management and others within the organization, City council members, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Roderfer Moss & Co, PLLC

Knoxville, Tennessee
October 27, 2006